

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Grant Area District Library	County Newaygo
Audit Date 6/30/05	Opinion Date 10/3/05	Date Accountant Report Submitted to State: 11/1/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Hendon & Slate, P.C.			
Street Address 711 W. Main	City Fremont	State MI	ZIP 49412
Accountant Signature <i>Jodi DeKruiger, CPA</i>		Date 11/1/05	

**GRANT AREA DISTRICT LIBRARY
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2005

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GRANT AREA DISTRICT LIBRARY

Library Board

<u>Appointed Official</u>	<u>Position</u>
Leslie Ostyn	President
Sherry Powell	Vice-President
Kay Stone	Treasurer
Rita Haring	Secretary
Charlotte Campbell	Trustee
Steve Rau	Trustee
Melissa Thorne	Trustee
Edith Walton	Trustee



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Library Board
Grant Area District Library
Grant, MI 49327

Independent Auditor's Report

We have audited the accompanying basic financial statements of the Grant Area District Library as of and for the year ended June 30, 2005 as listed in the accompanying table of contents. These financial statements are the responsibility of the Grant Area District Library Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Grant Area District Library as of June 30, 2005, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Grant Area District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Grant Area District Library. We did not examine this data and, accordingly, do not express an opinion thereon.

Hendon & Slate

Hendon & Slate, P.C.
Certified Public Accountants
October 3, 2005

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Muskegon
950 W. Norton Ave.
Suite 500
Muskegon, MI 49441
Phone (231) 733-0076
Fax (231) 733-0185

Hart
2332 North Comfort Drive
Hart, MI 49420
Phone (231) 873-5611
Fax (231) 873-7033

Whitehall
116 W. Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
Fax (231) 893-6773

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GRANT AREA DISTRICT LIBRARY
Management's Discussion and Analysis (MD&A)
June 30, 2005

Using This Annual Report

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the Library.

- Notes A through H of the financial statements include information on the Library's General Fund under the modified accrual method. These Notes focus on current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- Note I of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- Note I provides both long-term and short-term information about the Library's overall financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed date. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Condensed Financial Information

The table below provides key financial information in a condensed format for the current year:

	<u>2005</u>	<u>2004</u>
Current Assets	\$ 314,461	\$ 735,993
Capital Assets	<u>2,992,633</u>	<u>3,210,240</u>
Total Assets	<u><u>3,307,094</u></u>	<u><u>3,946,233</u></u>
Long-term Debt	2,072,269	2,108,682
Other Liabilities	<u>44,553</u>	<u>411,919</u>
Total Liabilities	<u><u>2,116,822</u></u>	<u><u>2,520,601</u></u>
Net Assets:		
Invested in Capital Assets, Net of Debt	915,246	1,101,558
Restricted for Debt Service	105,645	80,708
Unrestricted	<u>169,381</u>	<u>243,366</u>
Total Net Asset	<u><u>\$ 1,190,272</u></u>	<u><u>\$ 1,425,632</u></u>
Revenue:		
Property Taxes	\$ 278,850	\$ 266,984
Other	<u>125,069</u>	<u>555,385</u>
Total Revenue	403,919	822,369
Expenses:		
Library Services	421,129	240,101
Other Financing Uses		
Loss on Sale of Books	17,692	-
Prior Period Adjustment	<u>200,458</u>	<u>-</u>
Changes in Net Assets	<u><u>\$ (235,360)</u></u>	<u><u>\$ 582,268</u></u>

The Library as a Whole

- The Library's net assets decreased by \$235,360 in the current year. The decrease is primarily due to decreases in grants and other sources of income as well as a prior period adjustment to adjust the value of the Library's collection to cost instead of replacement value. Grant income was down as much of the grants in the prior year were to pay for the new Library. State aid and penal fine revenues are also down as the State of Michigan's budget continues to shrink. Also, donations and memorial gifts decreased primarily due to the completion of the new Library.
- The Library's primary source of revenue is from property taxes, which represent 69% of total General Fund revenues.
- Salaries and payroll taxes are a significant expense of the Library, representing 33% of total General Fund Expenditures.
- Depreciation expense for the current year represented 18% of the Library's total expenses.
- General Fund fund balance saw a decrease of \$65,323. This reflects a subsidy to the capital project fund.
- General Fund expenditures were 126% of revenues, with expenditures exceeding revenues by \$65,323.
- \$71,487 was spent in the current year to purchase equipment and to make improvements to the new Library facility. This amount was funded through the remainder of the prior year bond issue, grants and other miscellaneous capital projects revenue.
- A new Library director, Deborah Bose, was hired January 5, 2005.

The Library's Fund

Our analysis of the Library's major fund is included in Pages 5, 6 and 7 in the first column of the respective statements. The first column, or fund column, provides detailed information about the most significant fund – not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund decreased during the current year by \$65,323.

Debt service for the year amounted to \$110,070, consisting of principal payments of \$35,000 and interest payments of \$75,070. Debt service will continue to be a significant expenditure as a result of the completion of the new 15,000 square foot Library facility completed in 2004 and financed by a \$2.1 million bond issue.

Library Budgetary Highlights

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in salaries, payroll taxes and utilities.

The increases in the budgeted salaries, payroll taxes and utilities were the result of the opening of the new Library and the staffing levels associated with it as well as the utility costs needed to operate it.

Now that the Library has been open for a full year, expenses to operate the new facility will be easier to estimate and a more accurate budget is expected for future years.

Capital Assets and Debt Administration

At the end of the fiscal year, the Library had nearly \$2.99 million invested in land, building, furniture and equipment, and books and materials. The Library added over \$29,000 in new collection items consisting of new books, various audio/visual materials, and the music collection, as well as over \$42,000 in equipment and building and land improvements.

Management's Discussion and Analysis (Continued)

The Library's debt rating is good. No debt was issued during the fiscal year. The Library's bonded indebtedness totaled \$2,071,617 at June 30, 2005 consisting of \$2,065,000 in building and site bonds and \$6,617 in office equipment capital leases.

Next Year's Millage Rates

On July 19, 2005, the Library Board approved a levy of .7776 mills per thousand dollars of taxable value to service bonded indebtedness. Subject to the Headlee rollback, .8871 was approved to be levied for the purpose of providing Library funds for the operation of the Library.

GRANT AREA DISTRICT LIBRARY

Governmental Funds Balance Sheet/Statement of Net Assets June 30, 2005

	General Fund	Capital Projects Fund	Debt Service Fund	Total	Adjustments ^A	Statement of Activities
Assets and Other Debits						
Cash	\$ 113,807	\$ 80,597	\$ 103,284	\$ 297,688	\$ -	\$ 297,688
Accounts Receivable	-	2,389	-	2,389	-	2,389
Due from Other Funds	-	1,505	-	1,505	(1,505)	-
Due from Other Governmental Units	6,164	-	2,361	8,525	-	8,525
Prepaid Expenses	4,354	-	-	4,354	7,275	11,629
Land	-	-	-	-	111,000	111,000
Other Capital Assets, Net of Accumulated Depreciation	-	-	-	-	2,875,863	2,875,863
Total Assets	<u>\$ 124,325</u>	<u>\$ 84,491</u>	<u>\$ 105,645</u>	<u>\$ 314,461</u>	2,992,633	3,307,094
Liabilities, Fund Equity and Other Credits						
Liabilities						
Accounts Payable	\$ 7,759	\$ 2,389	\$ -	\$ 10,148	-	10,148
Accrued Liabilities	4,727	-	-	4,727	2,157	6,884
Due to Other Funds	1,505	-	-	1,505	(1,505)	-
Deferred Revenue	28,173	-	-	28,173	-	28,173
Long-Term Liabilities						
Bonds Payable, Due Within One Year	-	-	-	-	62,325	62,325
Bonds Payable, Due After One Year	-	-	-	-	2,009,292	2,009,292
Total Liabilities	42,164	2,389	-	44,553	2,072,269	2,116,822
Fund Balance/Net Assets						
Fund Balances						
Unreserved, Undesignated	82,161	-	-	82,161	(82,161)	-
Unreserved, Designated	-	82,102	-	82,102	(82,102)	-
Unreserved, Reported in Debt Service	-	-	105,645	105,645	(105,645)	-
Total Fund Balances	<u>82,161</u>	<u>82,102</u>	<u>105,645</u>	<u>269,908</u>	<u>(269,908)</u>	<u>-</u>
Total Liabilities and Fund Balances	<u>\$ 124,325</u>	<u>\$ 84,491</u>	<u>\$ 105,645</u>	<u>\$ 314,461</u>		
Net Assets:						
Invested in Capital Assets, Net of Related Debt					915,246	915,246
Restricted for Debt Service					105,645	105,645
Restricted for Capital Projects					82,102	82,102
Unrestricted					87,279	87,279
Total Net Assets					\$ 1,190,272	\$ 1,190,272

^A Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

GRANT AREA DISTRICT LIBRARY

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities June 30, 2005

Revenue	General <u>Fund</u>	Capital <u>Projects Fund</u>	Debt <u>Service Fund</u>	<u>Total</u>	<u>Adjustments</u> ^A	Statement of <u>Activities</u>
Local Sources						
Taxes	\$ 143,726	\$ -	\$ 135,124	\$ 278,850	\$ -	\$ 278,850
Grants	44,298	14,974	-	59,272	-	59,272
Penal Fines	37,357	-	-	37,357	-	37,357
Interest	2,735	4,157	133	7,025	-	7,025
Other	<u>16,129</u>	<u>-</u>	<u>-</u>	<u>16,129</u>	<u>(1,972)</u>	<u>14,157</u>
Total Local Sources	244,245	19,131	135,257	398,633	(1,972)	396,661
State Sources - State Aid	<u>7,258</u>	<u>-</u>	<u>-</u>	<u>7,258</u>	<u>-</u>	<u>7,258</u>
Total Revenues	251,503	19,131	135,257	405,891	(1,972)	403,919
Expenditures						
Salaries and Payroll Taxes	135,866	-	-	135,866	2,157	138,023
Acquisitions - Books, Periodicals & AV	29,022	-	-	29,022	(29,022)	-
Utilities and Telephone	32,373	-	-	32,373	-	32,373
Repairs and Maintenance	22,415	-	-	22,415	(7,275)	15,140
Capital Outlay	12,460	29,850	-	42,310	(42,310)	-
Insurance	10,178	-	-	10,178	-	10,178
Supplies, Copy Machine, Postage, Printing	12,224	-	-	12,224	-	12,224
Summer Reading Program	1,878	-	-	1,878	-	1,878
Co-op Services	13,615	-	-	13,615	-	13,615
Professional and Contracted Services	31,642	-	-	31,642	-	31,642
Training and Transportation	5,805	-	-	5,805	-	5,805
Advertising	1,400	-	-	1,400	-	1,400
Miscellaneous	4,961	3,061	250	8,272	(155)	8,117
Debt Service - Principal	2,065	-	35,000	37,065	(37,065)	-
- Interest	922	-	75,070	75,992	-	75,992
Depreciation	-	-	-	-	74,742	74,742
Total Expenditures	316,826	32,911	110,320	460,057	(38,928)	421,129
Excess Revenue Over Expenditures	(65,323)	(13,780)	24,937	(54,166)	36,956	(17,210)

Statement of Governmental Revenue, Expenditures and
Changes in Fund Balance/Statement of Activities (Continued)

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u> ^A	<u>Statement of Activities</u>
Other Financing Sources and Uses						
Loss on Sale of Books	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,692)</u>	<u>(17,692)</u>
Total Other Financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,692)</u>	<u>(17,692)</u>
Change in Fund Balance/Net Assets	(65,323)	(13,780)	24,937	(54,166)	19,264	(34,902)
Prior Period Adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,458)</u>	<u>(200,458)</u>
Change in Fund Balance/Net Assets After Prior Period Adjustment	-	-	-	-	(181,194)	(235,360)
Fund Balance/Net Assets - July 1	<u>147,484</u>	<u>95,882</u>	<u>80,708</u>	<u>324,074</u>	<u>1,101,558</u>	<u>1,425,632</u>
Fund Balance/Net Assets - June 30	<u>\$ 82,161</u>	<u>\$ 82,102</u>	<u>\$ 105,645</u>	<u>\$ 269,908</u>	<u>\$ 920,364</u>	<u>\$ 1,190,272</u>

^A Notes to the financial statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

GRANT AREA DISTRICT LIBRARY

Notes to the Financial Statements
June 30, 2005

NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Grant Area District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Library's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Library's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

1. REPORTING ENTITY

Grant Public Library was reorganized as the Grant Area District Library as created by Act 24 of the Public Acts of 1989, as amended effective July 1, 1996. The purpose of the Grant Area District Library is to provide library services to the City of Grant and surrounding local units, including the Grant Public Schools. The Library's Board consists of eight appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major funds).

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

Property taxes, State Shared Revenue, Penal Fines and interest are considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10-50 Years
Furniture and Equipment	5-20 Years
Library Books and Materials	3-10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1st based on the taxable valuation of the property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND CASH EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED (VACATION AND SICK LEAVE)

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Library employees are granted vacation and sick leave in varying amounts based on length of service. Upon termination, employees are paid accumulated vacation at full rates and accumulated sick leave at one half their rate of pay. All vacation and sick pay is accrued when incurred in the government-wide financial statements.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Library by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

- a. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in subdivision (a).
- e. Bankers' acceptances of United States banks.

- f. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
 - i. The purchase of securities on a when-issued or delayed delivery basis.
 - ii. The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
 - iii. The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
- h. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Library funds are held at Valley Ridge Bank and Fifth Third Bank and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
General Fund		
Cash on Hand	\$ 50	\$ -
Checking - Valley Ridge	77,874	79,472
CD's - Valley Ridge	<u>35,883</u>	<u>35,883</u>
Total General Fund	113,807	115,355
Capital Projects Fund		
CD's - Valley Ridge	<u>80,597</u>	<u>80,597</u>
Debt Service Fund		
Checking - Valley Ridge	<u>103,284</u>	<u>103,284</u>
Total Deposits	<u>\$ 297,688</u>	<u>\$ 299,236</u>
FDIC Insured	\$ 200,000	\$ 200,000
Uninsured	<u>97,688</u>	<u>99,236</u>
Total Deposits	<u>\$ 297,688</u>	<u>\$ 299,236</u>

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE C DUE FROM OTHER GOVERNMENTAL UNITS/DEFERRED REVENUE

Receivables at June 30, 2005 consisted of the following:

City of Grant - General Fund	\$ 6,164
- Debt Service <u>Fund</u>	
Total Due from other Governmental Units	<u>\$ 8,525</u>

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	<u>\$ -</u>	<u>\$ 28,173</u>

NOTE E CHANGES IN LONG-TERM DEBT

Outstanding Debt

A summary of the Library's long-term debt outstanding at June 30, 2005 is as follows:

	<u>Balance July 1, 2004</u>	<u>Net Borrowings (Payments)</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due within One Year</u>
Bonds Payable - due in annual installments of \$35,000 to \$135,000 through August 2029; interest payable semiannually at 2.0% to 4.4%	\$ 2,100,000	\$ (35,000)	\$ 2,065,000	\$ 60,000
Capital Lease - due in monthly installments of \$248.91 through January 2008; interest payable monthly at 11.8%	<u>8,682</u>	<u>(2,065)</u>	<u>6,617</u>	<u>2,325</u>
Total Long-Term Debt	<u>\$ 2,108,682</u>	<u>\$ (37,065)</u>	<u>\$ 2,071,617</u>	<u>\$ 62,325</u>

Debt Service Requirements

The annual requirements to amortize all debt outstanding at June 30, 2005 including both principal and interest are as follows:

Year Ended June 30	Bond Issue 2003 Library Building and Site		Capital Lease Office Equipment		Total
	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>	
2006	\$ 60,000	\$ 74,120	\$ 2,325	\$ 662	\$ 137,107
2007	60,000	72,920	2,616	371	135,907
2008	60,000	71,720	1,676	67	133,463
2009	60,000	70,430	-	-	130,430
2010	65,000	68,928	-	-	133,928
2011-2015	345,000	314,953	-	-	659,953
2016-2020	415,000	251,320	-	-	666,320
2021-2025	505,000	162,528	-	-	667,528
2026-2029	<u>495,000</u>	<u>44,933</u>	<u>-</u>	<u>-</u>	<u>539,933</u>
Total	<u>\$ 2,065,000</u>	<u>\$ 1,131,852</u>	<u>\$ 6,617</u>	<u>\$ 1,100</u>	3,204,569
Less: Interest					<u>(1,132,952)</u>
Present Value of Minimum Lease Payments					<u>\$ 2,071,617</u>

Interest expense of The Library for the year ended June 30, 2005 amounted to \$75,070 on the Bond Issue and \$922 on the Capital Lease.

NOTE F RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE G STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2005, the Library did incur material overexpenditures in the following funds:

Notes to the Financial Statements (Continued)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
Salaries and Wages	\$ 104,728	\$ 126,071	\$ (21,343)
Capital Outlay	3,725	12,460	(8,735)
Copy Machine	-	3,008	(3,008)
Processing Supplies	-	3,010	(3,010)
Training	-	3,721	(3,721)
Principal	-	2,065	(2,065)
Capital Project Fund			
Capital Outlay	-	29,850	(29,850)
Miscellaneous	-	3,060	(3,060)
Debt Service			
Interest	-	75,070	(75,070)
Principal	-	35,000	(35,000)

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary fund has been shown on a functional basis. The approved budgets for this budgetary fund was adopted at the line item level.

NOTE H RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental funds differ from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental funds balance sheet and statement of revenue, expenditures, and changes in fund balance. The following are reconciliation of fund balances to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified Accrual Basis \$ 269,908

Amounts reported in the statement of net assets are different because:

Expenses that are not considered to be paid from current revenues are not reported on the statement of activities:

 Prepaid Expenses 7,275

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

 Governmental Capital Assets 3,120,302
 Governmental Accumulated Depreciation (133,439)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund statements. Long-term liabilities reported in the statement of net assets that are not reported in the governmental statement of activities:

 Compensated Absences (2,157)
 Obligations Under Capital Leases (6,617)
 Bonds Payable (2,065,000)

Notes to the Financial Statements (Continued)

Amounts Due From/To Other Funds Within Governmental Funds:	
Due From Other Funds	(1,505)
Due To Other Funds	<u>1,505</u>
Net Assets of Governmental Funds - Full Accrual Basis	<u>\$ 1,190,272</u>
Net change in Fund Balances - Modified Accrual Basis	\$ (54,166)
Amounts reported in the statement of activities are different because:	
Expenses that are not considered to be paid from current revenues are not reported on the statement of activities:	
Prepaid Expenses	7,275
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(2,157)
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Library Books and Materials	29,177
Capital Outlay	42,310
Depreciation	(74,742)
Repayments of capital lease principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	37,065
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the disposal of fixed assets	<u>(19,664)</u>
Change in Net assets of Governmental Funds - Full Accrual Basis	<u>\$ (34,902)</u>

NOTE I PRIOR PERIOD ADJUSTMENT

During the audit of 2005, a prior period adjustment was made to the beginning fund balance. The adjustment was made to the carrying value of the Library's book collection to more appropriately reflect the cost of the items. The correction of this valuation error is reflected in the statement of activities. There was no income effect as a result of this change.

GRANT AREA DISTRICT LIBRARY

Required Supplementary Information Budgetary Comparison Schedule – General Fund For the Year Ended June 30, 2005

	Originally Adopted Budget	Final Amended Budget	Actual	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ 142,553	\$ 142,913	\$ 143,726	\$ 813
Grants	25,911	49,130	44,298	(4,832)
Penal Fines	35,000	37,375	37,357	(18)
Interest	200	285	2,735	2,450
Patron Fees	2,500	2,000	1,953	(47)
Book Fines	3,000	7,875	7,872	(3)
Donations - Memorials	1,800	1,700	1,606	(94)
Sale of Books	-	1,975	1,972	(3)
Other	<u>500</u>	<u>2,750</u>	<u>2,726</u>	<u>(24)</u>
Total Local Sources	211,464	246,003	244,245	(1,758)
State Sources - State Aid	<u>6,000</u>	<u>3,700</u>	<u>7,258</u>	<u>3,558</u>
Total Revenues	217,464	249,703	251,503	1,800
Expenditures				
Salaries and Wages	95,000	104,728	126,071	(21,343)
Payroll Taxes	28,264	33,200	9,795	23,405
Acquisitions - Books	15,000	20,825	21,358	(533)
- Periodicals	1,200	1,400	1,364	36
- Audio-Visual	6,000	6,325	6,300	25
Advertising	1,000	1,600	1,400	200
Utilities and Telephone	10,000	33,825	32,373	1,452
Repairs and Maintenance	3,000	21,725	22,415	(690)
Capital Outlay	4,000	3,725	12,460	(8,735)
Insurance	9,000	11,800	10,178	1,622
Program Supplies	-	-	348	(348)
Copy Machine	-	-	3,008	(3,008)
Office Supplies	9,000	14,625	3,857	10,768
Processing Supplies	-	-	3,010	(3,010)
Postage	-	-	1,105	(1,105)
Summer Reading Program	2,500	2,500	1,878	622
Co-op Services	13,000	13,675	13,615	60
Professional and Contracted Services	13,000	33,950	31,642	2,308
Printing and Publishing	-	-	896	(896)
Training 1,500	1,350	5,071	(3,721)	
Transportation	500	775	734	41
Miscellaneous	5,500	15,995	4,961	11,034
Debt Service - Principal	-	-	2,065	(2,065)
- Interest	<u>-</u>	<u>-</u>	<u>922</u>	<u>(922)</u>
Total Expenditures	<u>217,464</u>	<u>322,023</u>	<u>316,826</u>	<u>5,197</u>
Excess Revenues Over (Under) Expenditures	-	(72,320)	(65,323)	6,997
Other Financing Sources (Uses)				
Transfer In	<u>-</u>	<u>72,320</u>	<u>-</u>	<u>(72,320)</u>
Total Other Financial Sources (Uses)	<u>-</u>	<u>72,320</u>	<u>-</u>	<u>(72,320)</u>
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	-	-	(65,323)	(65,323)
Fund Balance - July 1	<u>-</u>	<u>-</u>	<u>147,484</u>	<u>147,484</u>
Fund Balance - June 30	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,161</u>	<u>\$ 82,161</u>

GRANT AREA DISTRICT LIBRARY

Required Supplementary Information Budgetary Comparison Schedule – Capital Projects Fund For the Year Ended June 30, 2005

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
Revenues				
Local Sources				
Grants	\$ -	\$ -	\$ 14,974	\$ 14,974
Interest	<u>-</u>	<u>-</u>	<u>4,157</u>	<u>4,157</u>
Total Revenues	-	-	19,131	19,131
Expenditures				
Capital Outlay	-	-	29,850	(29,850)
Miscellaneous	<u>-</u>	<u>-</u>	<u>3,061</u>	<u>(3,061)</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>32,911</u>	<u>(32,911)</u>
Excess Revenues Over (Under) Expenditures	-	-	(13,780)	(13,780)
Fund Balance - July 1	<u>-</u>	<u>-</u>	<u>95,882</u>	<u>95,882</u>
Fund Balance - June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 82,102</u></u>	<u><u>\$ 82,102</u></u>

GRANT AREA DISTRICT LIBRARY

Required Supplementary Information Budgetary Comparison Schedule – Debt Service Fund For the Year Ended June 30, 2005

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable <u>(Unfavorable)</u>
Revenues				
Local Sources				
Taxes	\$ -	\$ -	\$ 135,124	\$ 135,124
Interest	<u>-</u>	<u>-</u>	<u>133</u>	<u>133</u>
Total Revenues	-	-	135,257	135,257
Expenditures				
Debt Service	-	-	35,000	(35,000)
Miscellaneous	<u>-</u>	<u>-</u>	<u>250</u>	<u>(250)</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>35,250</u>	<u>(35,250)</u>
Excess Revenues Over (Under) Expenditures	-	-	100,007	(100,007)
Other Financing Sources (Uses)				
Interest Expense	<u>-</u>	<u>-</u>	<u>(75,070)</u>	<u>(75,070)</u>
Total Other Financing Sources (Uses)	-	-	(75,070)	(75,070)
Excess Revenue Over (Under) Expenditures and Other Financing Sources (Uses)	-	-	24,937	24,937
Fund Balance - July 1	<u>-</u>	<u>-</u>	<u>80,708</u>	<u>80,708</u>
Fund Balance - June 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 105,645</u></u>	<u><u>\$ 105,645</u></u>



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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October 20, 2005

Library Board
Grant Area District Library
Grant, MI 49437

Dear Board Members:

We have recently completed an audit of the financial statements of the Grant Area District Library for the year ended June 30, 2005. In connection with our audit, we reviewed the Library's accounting procedures. In that regard we offer the following comments and recommendations .

RECORD KEEPING

Receipts and Remittance Advices

During the prior audit, we noted that some remittance advices were missing from the documentation of deposits. We were pleased to see that this problem has been eliminated and that there were no missing remittance advices.

Interest Income

The bookkeeper is doing a very good job of reconciling the cash accounts including recording interest income in the month it is earned. However, as the certificates of deposit are not reconciled regularly, the values listed on the interim monthly financial statements are not as accurate as they could be. For the current year, no interest was recorded for the cd's until a year-end adjustment was made. We suggest that Lisa request a report from the bank at least quarterly that states the amount of interest that each cd has earned so that she may record it into the accounting system. This will keep the balances on the financial statements and board reports as accurate as possible at all times.

Property Tax Income

We noted that the Library had some difficulty in obtaining property tax settlement reports from all of the local units. While they were obtained and property tax revenues were determined to be accurate, we suggest that the Library obtain these settlements each year as soon as they are available. This will this allow for not only a complete reconciliation of

Fremont
711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
Fax (231) 924-4088
Toll Free (800) 924-6891

Muskegon
950 W. Norton Ave.
Suite 500
Muskegon, MI 49441
Phone (231) 733-0076
Fax (231) 733-0185

Hart
2332 North Comfort Drive
Hart, MI 49420
Phone (231) 873-5611
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the property taxes during our audit, but will allow the Library to confirm that they have received the proper amount of property taxes from the units when the monies are receipted.

BUDGETING

The Library again had some overexpenditures as a result of not properly amending the budget for expenditures which were not expected at the time of adopting the original budget. The common phrase is "amend before you spend". The budget must reflect expenditures prior to the expenditure occurring. Future budgets should be amended to properly reflect expenditures.

Also, the Board did not adopt a budget for the Capital Projects Fund or the Debt Service Fund. The Board needs to approve a budget for these funds in addition to the General Fund. We recommend that the Board prepare and amend (as necessary) these budgets at the same time as the General fund budget.

POLICIES

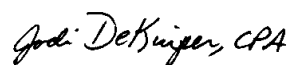
Investment Policy

We are please to find that the Library approved an investment policy. The Library is now in compliance with this State requirement. As a reminder, as part of this requirement, the Library needs to provide a copy of the investment policy to the banks with which the Library has investments.

SUMMARY

We appreciate the courtesy extended to us during the course of the audit including the prompt attention to our inquiries by Deb and Lisa. If you have any questions regarding that above matters, please let me know. We look forward to continuing to serve the Grant Area District Library.

Respectfully submitted,

A handwritten signature in black ink that reads "Jodi DeKuiper, CPA". The signature is written in a cursive, flowing style.

Jodi DeKuiper, CPA
Hendon & Slate, P.C.